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Pictured here is the headframe and some of the buildings on the Crownbridge Copper Mines property which has been acquired by your Company.

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CANNON MINES LIMITED

INTERIM PROGRESS REPORT TO THE SHAREHOLDERS MARCH 21, 1968

TO THE SHAREHOLDERS:

We are pleased to report that your Company has acquired, on terms we consider very favorable, the copper mining property, mining plant and 300-ton capacity mill located in the Iron Bridge area about 23 miles north of the town of Blind River, Ontario. (Recommended by Mr. G. C. Snell, vice-president of your company.)

The appraisal of this property by the company's consulting engineer, Mr. R. Massey Williams, P.Eng., and its potential for production prepared for your Company by consulting geologist, Mr. D. C. McKechnie, P.Eng., leads us to the conclusion that by this acquisition we may now achieve our long-standing objective to develop a profitable producing mine — although a fair amount of further exploration and development work remains to be done before actual mining can begin.

The purchase price for the Cannon property includes a cash payment of \$35,000 plus 200,000 treasury shares which are to be held in escrow subject to release only at the discretion of your Board of Directors (and the appropriate securities commissions) and only after your Company has been fully compensated for the costs incurred in the development of the property to production. In addition, we have agreed to pay the vendor 25% of the net returns from a mining operation, such payments to start after all expenditures by your Company up to \$550,000 have been fully recovered from production.

First phase of the exploration and development program recommended by our consultant has been estimated at \$270,000. Based on presently indicated probable ore reserves of 200,000 tons averaging 1.80% copper per ton, an operating profit (after allowance for mining and milling at \$7.50 per ton) has been estimated at \$800,000.

Mr. McKechnie points out in his March 18, 1968 report, that additional ore potential is indicated on the basis of drilling done to date — which he has estimated at 185,000 tons of possible ore also averaging 1.80% copper after allowance for 10% dilution. Total indicated probable and possible ore is 385,000 tons after dilution.

A DESCRIPTION OF THE PROPERTY

The property your Company has acquired covers 101 mining claims in Townships 168 and 175 about 23 miles northerly from Blind River and about 28 miles by well gravelled road from Dean Lake on the CPR line.

A three compartment shaft has been sited and collared to a depth of 30 feet, and a head-frame erected. There is a well-constructed hoist room, warehouse, assay office and machine shop.

The mill is a conventional flotation concentrator suitable for the simple metallurgical character of the ore. Capacity is estimated by Mr. McKechnie at between 250 and 300 tons of ore daily.

As for the mine itself, Mr. McKechnie reports that copper sulphide in the form of chalcopyrite found in a strong quartz and quartz breccia (angular fragmented rocks) zone. This zone has been partially drilled along a strike length of 4,100 feet to a depth of 1,000 feet, with the greatest number of intersections about 500 feet. This drilling has partially outlined concentration of chalcopyrite in the vein zones of sufficient size and grade to be of possible economic importance. These shoots are known as the West Zone, the Main Zone and the "J" Zone.

The Main and West zones are close to the shaft area and Mr. McKechnie has estimated probable reserves as follows:

- An indicated 160,000 tons in the Main Zone which will average 2.03% copper across a horizontal width of six feet to a vertical depth of 500 feet;
- An indicated 20,000 tons averaging 1.95% copper in the West Zone which is on the same vein about 200 feet to the west. Width here is five feet;
- An indicated possible 40,000 tons averaging 2.0% copper across five feet in the "J" zone located 2,000 feet east of the Main Zone and is similar to the West and Main Zones and probably on the same vein.

Mr. McKechnie reports that the vein is open for additional shoots at both ends along strike and in depth. Between the Main and "J" Zones drilling has indicated copper mineralization in the vein, but there is not sufficient information at this point for our consultant to make a quantitative estimate on this mineralized area.



Mr. McKechnie concludes his report as follows:

"The writer is of the opinion that there is sufficient possible ore indicated by drilling to justify the cost of the program that has been outlined in the body of this report. If Phases (1) and (2) are successfully completed, the mining of the ore development by the program could return an operating profit about double the cost of the program at a copper price of fifty-one cents a pound. As the zone is open along strike and in depth, there are good possibilities of developing additional tonnage of similar grade should the recommended program prove the feasibility of the project. There are a number of known copper bearing veins in the immediate area and these could become a source of additional revenue, either by ownership, or on a custom basis."

Of the additional possible ore mentioned in the McKechnie report totalling 185,000 tons on the basis of drilling results to date, Mr. McKechnie estimates that 100,000 tons are in the Main Zone between the 500 and 1,000 foot horizons.

ESTIMATED CASH FLOW

On the basis of the exploration and development program recommended to be carried out, Mr. McKechnie has estimated a total operating profit from the mining of the probable 200,000 tons of ore at \$800,000 taking a price of 51 cents per pound for copper before deducting freight, treatment and handling charges. He has estimated the value of the ore at \$11.55 per ton with mining and milling costs estimated at \$7.50 per ton.

RECOMMENDED DEVELOPMENT PROGRAM

To develop and make ready for stopping the block of probable ore above the 500 foot level, and to explore by diamond drilling suitable targets on the vein zone, our consultant has recommended the following program, the total cost of which is estimated at \$375,000 covers phase 1 and phase 2.

(1) Deepen the existing shaft from the present 30 feet to 530 feet; (2) Establish levels at 150, 300 and 500 feet vertical depths; (3) Drive 1,300 feet of drifts on at least two levels; (4) Preparation and installation of the hoist; (5) Drive 1,200 feet of drifting and 500 feet of raising from bottom level to surface; (6) Undertake a program of diamond drilling for exploration and assessment work; (7) Re-establish the base line, survey the drill holes and prepare a geological map of the property.

We have reported on this property in considerable detail because we regard this acquisition as the most important step ever taken by your Company.

On other properties held by your Company, the only immediate work program we intend to pursue is on the Newman Twp. property in the Burntbush area of northeast Ontario where our consultant Mr. R. Massey Williams has recommended further geological work to check the electromagnetic conductor outlined in the geophysical survey.

LAKE KOZAK MINES LIMITED

This company, in which Cannon Mines Limited holds 300,000 shares, reports that it commenced an underground drilling program March 5, 1968 as recommended by consultant Mr. R. Massey Williams. The property is in the Goudreau area on the Algoma district and in previous reports, Mr. Williams has indicated that there is sufficient evidence of gold and silver in the vicinity of the existing shaft to warrant further investigation.

The portion of the contract calling for the construction of a rail siding to the Algoma Central Railway line, headframe construction, hoist room, a road to the mine site, administration building and living quarters, and the installation of necessary surface equipment has been carried out. Slashing and retimbering, to increase the size of the shaft and establish a drill station at the 100 foot level has been completed. A program of drifting, cross-cutting and bulk sampling in conjunction with drilling is under the direction of the resident engineer, Mr. A. L. Johnston, P.Eng.

CURRENT ACTIVITY

In connection with the recommended exploration and development program outlined for the Cannon property, tenders are now being called for a contract covering the implementation of this work. Additional financing will be required by your Company, for which arrangements are now being made. We expect that the follow-up work in the Newman Twp. property will be carried out as soon as weather conditions in the area permit.

As can be seen, your Company has embarked on an important new project which we believe has very promising potential for the growth of your Company in the years ahead. Shareholders will be kept fully informed of the progress from time to time as the exploration-development work advances.

On behalf of the Board of Directors,

Frank Cannon

March 21, 1968

Claims with application for lease



CANNON MINES LIMITED

PROPERTY HOLDINGS

Townships 168 & 175

District of Algoma, Ontario

SCALE 2640 feet to 1 inch

November 1967.

D.C. McKechnie
Professional Engineer

